

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	

REPLY COMMENTS OF WORLDCOM, INC.

WORLDCOM, INC.

Mary L. Brown
Lori Wright
Chuck Goldfarb
1133 19th Street, N.W.
Washington, D.C. 20036

(202) 736-6468

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I. Introduction

The overwhelming majority of commenters in this proceeding agree that it is premature at this time to include advanced services in the definition of universal service. A wide cross-section of parties – including IXCs, BOCs, wireless companies, and consumer advocates – points out that broadband service does not meet the criteria enumerated in section 254(c) of the Act, especially those requiring that services supported by universal service be “subscribed to by a substantial majority of residential customers” and “essential to education, public health, or public safety.” In addition, parties argue that the costs of subsidizing broadband deployment outweigh the benefits at the present time. Indeed, it appears that the benefits of broadband service remain unclear to most Americans today, especially at current prices. Although broadband growth is increasing appreciably and take-rates are consistent with or exceed the historical take-rates for other products and services, if and when broadband will be subscribed to by a significant part of the population remains to be seen. Some experts suggest that lower retail prices, a “killer application,” or some combination of the two will increase consumers’ “need for speed.” Until then, the Universal Service Joint Board should closely monitor broadband supply and demand issues to determine the point at which it may be appropriate to provide universal service support for advanced services.

WorldCom and other parties also agree that it is inappropriate at this time to add to, or delete, any other services from the current definition of universal service. The evidence on the record is insufficient to demonstrate that any additional services meet the criteria in section 254(c) of the Act, which must be considered in reviewing the definition

of universal service, nor is it clear that the addition of these services would be a sound public policy decision.

II. Most Parties Agree That Advanced Services Should Not Be Added to the Definition of Universal Service At This Time.

The overwhelming majority of parties to this proceeding are in agreement that advanced services should not be added to the definition of universal service at the present time.¹ Many commenters point out that advanced services do not yet meet the criteria contained in section 254(c).² Section 254(c) requires policymakers to consider, among other issues, whether a service is subscribed to by a “substantial majority of residential customers” and is “essential to education, public health, or public safety.” All available evidence indicates that advanced services are not only *not* subscribed to by a “substantial majority” of residential customers, but rather, are subscribed to only by a *small minority* of residential customers.³ In addition, it is far from clear that advanced services are “essential” to education, public health, or public safety.⁴ Furthermore, we agree with those parties that argue that it runs contrary to the public interest to increase the size of the universal service support mechanism by adding advanced services to the definition, particularly when so many questions about the costs and benefits of subsidizing advanced services remain unanswered.⁵

¹ See, e.g., Maryland PSC Comments at 2; New York DPS Comments at 3-4; SBC Comments at 8; Ad Hoc Comments at 5; AT&T Comments at 3; BellSouth Comments at 6; Iowa Utilities Board Comments at 3-6; Qwest Comments at Attachment 1; Sprint Comments at 3.

² See, e.g., WorldCom Comments at 11-18; Maryland PSC Comments at 2-3; New York DPS Comments at 4; Ad Hoc Comments at 5; AT&T Comments at 3.

³ See, e.g., WorldCom Comments at 12; Iowa Utilities Board Comments at 4-5.

⁴ See, e.g., WorldCom Comments at 12; Verizon Comments at 6.

⁵ See, e.g., Association for Telecommunications Professionals in Higher Education Comments at 3; Qwest Comments at Attachment 1; Verizon Wireless Comments at 5.

III. There is Insufficient Evidence to Support the Addition of Any Services to the Universal Service Definition.

Several parties to this proceeding identify what amounts to an assortment of services that they believe should be added to the definition of universal service.⁶ WorldCom agrees with the Commission's original determination regarding the services that should be supported by universal service and finds no new evidence presented that warrants a change in the Commission's rules. Many parties agree.⁷ Specifically, WorldCom and others support the Commission's earlier determination that many services, such as warm line (or soft-dial-tone), prepaid services, payphone access, and voicemail for the homeless and unemployed, are better dealt with by states on a state-specific basis.⁸ States are better equipped to assess the need for such services in their communities and to weigh the need for the service against the cost and technical issues associated with implementation by the carriers.⁹ In addition, WorldCom shares the concerns raised by several parties regarding the competitive and technological-neutrality issues of adding certain services to the universal service definition.¹⁰ Below, we discuss two services in particular that should not be added to the universal service definition.

Commenters representing rural and insular interests, such as Sandwich Isles Communications and the Regulatory Commission of Alaska (Alaska Commission),

⁶ See, e.g., Community Voicemail Comments at 1-2 (payphone services); Telecommunications for the Deaf, Inc. Comments at 5-14 (Braille TTYs and two line voice carry over technology); United States Conference of Catholic Bishops Comments at 4 (soft dial tone); OPATSCO Comments at 3 (equal access to interexchange service).

⁷ See, e.g., GSA Comments at 3; Maryland PSC Comments at 3; AT&T Wireless Comments at 2; CTIA Comments at 3.

⁸ *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, rel. May 8, 1997, at para. 406.

⁹ See, e.g., SBC Comments at 11-14 (noting the implementation difficulties in implementing warm line); Ad Hoc Comments at 14-16 (suggesting that policymakers undertake an analysis of the costs of providing warm line).

suggest that federal universal service support should be provided to assist with the provision of affordable Internet service in highly remote areas.¹¹ The Alaska Commission specifically asks that IXC's be able to obtain federal universal service support when necessary to provide affordable local Internet service at transmission speeds of 56 Kbps to remote rural areas.¹² Essentially, IXC's would receive universal service subsidies for long-haul transport of Internet traffic, under the Alaska Commission's proposal.¹³ The Alaska Commission also sets forth some proposals under which ISPs would receive universal service support. The Alaska Commission recognizes, and WorldCom agrees, that these proposals present difficulties with regard to carriers' ability to receive universal service support, both in terms of IXC's and ISPs being eligible to receive support under current rules and currently-eligible carriers maintaining their "eligible telecommunications carrier" (ETC) status under current rules. In addition, the costs of adding local Internet service in rural areas to the definition of universal service must also be considered. WorldCom understands that the most rural and insular parts of the country present unique needs and circumstances, but urges the Joint Board to carefully consider the consequences of using a federal subsidy program to address these circumstances. WorldCom recommends that instead of attempting to amend current rules to adapt to these unique situations, the Joint Board should find creative solutions that would not increase the size of the fund and present carrier-eligibility issues. For example, the Commission recently issued an Order that allows members of remote rural communities in Alaska, where there is no local or toll-free dial-

¹⁰ See, e.g., BellSouth Comments at 4.

¹¹ Regulatory Commission of Alaska Comments at 5; Sandwich Isles Communications, Inc. Comments at 6-9.

¹² Regulatory Commission of Alaska Comments at 5.

up Internet access, to use excess service obtained through the universal service support mechanism for schools and libraries when not in use by the schools and libraries.¹⁴

WorldCom applauds this decision as a creative means to address a problem without increasing costs or introducing administrative difficulties. WorldCom urges the Joint Board to take advantage of these types of opportunities, rather than add new services to the universal service definition.

In addition, several parties suggest that extended area service (EAS) should be added to the definition of universal service.¹⁵ WorldCom agrees with the California PUC, Ad Hoc, and other parties that the definition of universal service should not be expanded to include EAS.¹⁶ EAS expands local calling areas beyond traditional communities of interest, rendering certain toll calls local. Under EAS, measured intraLATA toll service is incorporated into an expanded flat-rated local service. Even within a single state, EAS takes many forms. In some localities, the flat rate increases by only a few dollars, but in other localities where the extended area is large, the flat rate can more than triple and can exceed \$30 per month. EAS sometimes covers entire metropolitan areas or entire LATAs. In Texas, for example, EAS exists in at least three different forms, with rate structures and other features that vary based on the statute or regulatory regime in place at the time each was implemented.¹⁷ Given the wide variety of

¹³ Regulatory Commission of Alaska Comments at 5.

¹⁴ *In the Matter of Federal-State Joint Board on Universal Service, Petition of the State of Alaska for Waiver for the Utilization of Schools and Libraries Internet Point-of-Presence in Rural Remote Alaska Villages Where No Local Access Exists and Request for Declaratory Ruling*, Order, CC Docket 96-45, rel. Dec. 3, 2001.

¹⁵ See, e.g., AARP Comments at 6-7; Catholic Conference Comments at 13-18.

¹⁶ California PUC Comments at 5-6; Ad Hoc Comments at 16.

¹⁷ When the Texas Public Service Commission was created, some localities already had EAS in place and these EAS rates were grandfathered into the basic rates customers paid. Later, Texas law was changed to allow local jurisdictions to petition the Commission for new toll-free calling arrangements, as long as the extended area service did not raise flat local rates by more than \$3.50. Hundreds of localities petitioned for

EAS offerings that can exist even within a single state, it is not clear how inclusion of EAS in the universal service definition could be implemented administratively. The Commission would be required to set forth a federal definition of the extended area service, but EAS as it exists today takes many different forms and is intended to address many different state- or location-specific problems.¹⁸ The Commission would need to determine whether all or just some of these extended area service offerings qualify for a universal service subsidy, and whether customers in states that maintain narrow local calling areas should be required to subsidize customers in states that mandate EAS.

Moreover, before adding EAS to the definition of universal service, the Commission would need to determine whether universal service subsidies would be limited to rural areas, even though much of the EAS service today is offered in metropolitan areas and suburban areas that do not currently qualify for universal service. The Commission would also have to determine whether states that currently qualify for universal service support would then be able to expand their subsidy receipts by introducing EAS, while other states would not benefit. Finally, the Commission would need to assess whether low-income households that currently qualify for Lifeline support would be allowed to receive subsidized EAS.

EAS under that law. In addition, in large metropolitan areas, there are optional flat-rated extended calling area service offerings with very high flat monthly rates. For example, subscribers in the outer reaches of the Austin metropolitan area can obtain EAS for more than \$30.00 a month, which is more than three times the rate for basic service.

¹⁸ In some cases, existing local calling areas were narrowly defined, and local rates were set low. As communities of interest grew geographically, EAS provided an opportunity to selectively expand the local calling area and raise flat rates. In other cases, metropolitan area-wide calling areas were created, but measured-service rates were used for the extended service area. In yet other cases, for example in Oklahoma City and Tulsa, intraLATA toll service areas were effectively eliminated by expanding the calling areas to include virtually the entire LATA.

Even if these administrative problems could be overcome, including EAS in the definition raises competitive concerns. Including EAS in the definition would create incentives for incumbent local exchange carriers (ILECs) to seek, and for state regulatory commissions to create, EAS. When states implement EAS, typically they allow ILECs to increase rates for other services in order to generate sufficient revenues to offset the decrease in revenues from shifting previously toll traffic to local traffic. CLECs and IXCs, which do not have captive (i.e., wholesale) customers whose rates could be increased, would not have the same opportunity as ILECs to recoup the reductions in revenues resulting from EAS. Thus, EAS tends to artificially benefit ILECs at the expense of other carriers.¹⁹

¹⁹ If all barriers to entry into the local exchange market were eliminated, so that all carriers could compete equally in the local and intraLATA toll markets, then artificially extending local exchange areas through implementation of extended area service might not have anticompetitive consequences. But given the high remaining barriers to local entry, particularly for residential service, competitive provision of local exchange service is limited. Removing some service from the competitive intraLATA toll market and placing it in the non-competitive local exchange market is inconsistent with the overriding policy objective of Congress to foster the competitive provision of telecommunications services.

IV. Conclusion

For the reasons discussed above, the Joint Board should recommend that the Commission make no changes to the definition of universal service at this time.

Respectfully submitted,

Mary L. Brown
Lori Wright
Chuck Goldfarb

WORLDCOM, INC.
1133 19th Street, N.W.
Washington, D.C. 20036
(202) 736-6468

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CERTIFICATE OF SERVICE

I, Vivian Lee, do hereby certify that copies of the foregoing Reply Comments of WorldCom, Inc. were sent, via first-class, postage paid, to the following on this 4th day of January 2002.

Sheryl Todd*
Accounting Policy Division Chief
Federal Communication Commission
445 12th Street, SW
Washington, DC 20554
Commission
Washington, DC 20554

Qualex International*
445 12th Street, SW
Washington, DC 20554

Alan R. Shark, President
American Mobile Telecommunications
Association, Inc.
1150 18th Street, NW, Suite 250
Washington, DC 20036

James S. Blaszak
Colleen Boothby
Levine, Blaszak, Block & Boothby, LLP
2001 L Street, NW
Washington, DC 20036

Judy Sello
Mark C. Rosenblum
AT&T Corporation
Room 1135L2
295 North Maple Avenue
Basking Ridge, New Jersey 07920

Cheryl L. Parrino
D. Scott Barash
Universal Service Administrative
Company
2120 L Street, NW
Suite 600
Washington, DC 20037

Michael F. Altschul
Cellular Telecommunications &
Internet Association
1250 Connecticut Avenue, NW
Suite 800
Washington, DC 20036

Richard M. Sbaratta
BellSouth Corporation
675 West Peachtree Street
Suite 4300
Atlanta, Georgia 30375

Joseph DiBella
Verizon
1320 North Court House Road,
Eighth Floor
Arlington, VA 22201

Lawrence E. Sarjeant
Linda L. Kent
Keith Townsend
United States Telephone Association
1401 H Street, NW, Suite 600
Washington, DC 20005

Jeffrey A. Brueggeman
Roger K. Toppins
Paul K. Mancini
SBC Communications Inc.
1401 I Street, NW, 11th Floor
Washington, DC 20005

Jay C. Keithley
Jonathan Chambers
Sprint Corporation
401 9th Street, NW, #400
Washington, DC 20004

Rick Zucker
Sprint Corporation
6360 Sprint Parkway KSOPHE0302
Overland Park, KS 66251

Douglas I. Brandon
Vice President - External Affairs
AT&T Wireless Services, Inc.
1150 Connecticut Avenue, NW
Washington, DC 20036

Danny E. Adams
Andrea Pruitt Edmonds
Kelley Drye & Warren LLP
8000 Towers Crescent Drive
Suite 1200
Vienna, Virginia 22182

Laura H. Phillips
Jason E. Friedrich
Nextel Communications, Inc.
2001 Edmund Halley Drive
Reston, VA 20191

John T. Scott, III
Verizon Wireless
1300 I Street, NW
Suite 400 West
Washington, DC 20005

J.R. Carbonell
Carol L. Tacker
David G. Richards
Cingular Wireless LLC
5565 Glenridge Connector Suite 1700
Atlanta, GA 30342

Thomas Jones
Christi Shewman
Willkie Farr & Gallagher
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20036

Craig J. Brown
Sharon J. Devine
Qwest Communications International
Inc.
1020 19th Street, NW
Suite 700
Washington, DC 20036

Hope Halpern Barbulescu
Director of Regulatory Affairs
Telstar International, Inc.
1 North Broadway
White Plains, NY 10601

Charles C. Hunter
Catherine M. Hannan
Hunter Communications Law Group
1424 Sixteenth Street, NW, Suite 105
Washington, DC 20036

Richard A. Askoff
Colin Sandy
National Exchange Carrier Associations,
Inc.
2120 L Street, NW, Suite 650
Washington, DC 20037

L. Marie Guillory
Daniel Mitchell
National Telephone Cooperative
Association
4121 Wilson Boulevard, 10th Floor
Arlington, VA 22203

Laurie Pappas
Deputy Public Counsel
Texas Office of Public Utility Counsel
1701 N. Congress Avenue, Suite 9-180
Austin, TX 78701

Gene Kimmelman
Consumers Union
1666 Connecticut Avenue, NW
Washington, DC 20009

Mark Cooper
Director of Research
Consumer Federation of America
504 Highgate Terrace
Silver Spring, MD 20904

John Ridgway
Manager, Telecommunications
James R. Langenberg
Iowa Utilities Board
350 Maple Street
Des Moines, IA 50319

Sylvia Lesse
John Kuykendall
Rural Cellular Association
2120 L Street, NW Suite 520
Washington, DC 20037

Robert J. Aamoth, Esq.
Heather M. Wilson, Esq.
Kelley Drye & Warren, LLP
1200 19th Street, NW, Suite 500
Washington, DC 20036

Christopher R. Day
Angela J. Campbell
Georgetown University Law Center
600 New Jersey Avenue, NW, Suite 312
Washington, DC 20001

Jerry J. Gumpel, Esq.
Sheppard, Mullin, Richter & Hampton
LLP
510 West Broadway, 19th Floor
San Diego, California 92101

Catherine Wang
Tamar E. Finn
Douglas D. Orvis, II
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW, Suite 300
Washington, DC 20007

John A. Prendergast
Gerard J. Duffy
Benjamin H. Dickens
Blooston, Mordkofsky, Dickens, Duffy
& Prendergast
2120 L Street, NW, Suite 300
Washington, DC 20037

Albert H. Kramer
Jacob S. Farber
Jeffrey H. Tignor
American Public Communications
Council
2101 L Street, NW
Washington, DC 20037-1526

Dennis M. Doyle
Arch Wireless, Inc.
1800 West Park Drive
Suite 250
Westborough, MA 01581-3912

Peter Tannenwald
Tara B. Shostek
Irwin, Campbell & Tannernwald, PC
1730 Rhode Island Ave., NW Suite 200
Washington, DC 20036-3101

Beverly E. Ledbetter, Esq.
Brown University
P.O. Box 1913,
Providence, RI 02912-1913

Anthony R. Tanzi, RCCD
ACUTA, Inc.
152 W. Zandale Drive, Ste 200
Lexington, KY 40503

Dennis Cieslak
Teletronic, Inc.
1110 North Glebe Road, Suite 500
Arlington, Virginia 22201

James E. Graf, II
Kristen Neller Verderame
A. Sheba Chacko
BT North America Inc.
601 Pennsylvania Avenue, NW
North Building, Suite 625
Washington, DC 20004

John E. Welch
EPIK Communications Incorporated
3501 Quadrangle Blvd., Suite 225
Orlando, Florida 32779

Keith Oliver
Home Telephone Company, Inc.
P.O. Box 1194
Moncks Corner, South Carolina 29461

Carl Wolf Billek
IDT Corporation
520 Broad Street
Newark, New Jersey 07102-3111

Susan J. Bahr
Law Offices of Susan Bahr, PC
P.O. Box 86089
Montgomery Village, MD 20886-6089

Stephen R. Bell
Jennifer D. McCarthy
A. Renee Callahan
Willkie Farr & Gallagher
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20036

Michael G. Hoffman
Patricia Zacharie
VarTec Telecom. Inc.
1600 Viceroy Drive
Dallas, Texas 75235

Robert J. Hanson
Verestar, Inc.
3040 Williams Drive Suite 600
Fairfax, Virginia 22031

Billy Jack Gregg
West Virginia Consumer Advocate
Division
700 Union Building
Charleston, West Virginia 25301

Thomas M. Koutsky
Claudia J. Earls
Z-Tel Communications, Inc.
601 S. Harbour Island Blvd., Suite 220
Tampa, FL 33602

Stuart E. Polikoff
Jeffrey W. Smith
OPASTCO
21 Dupont Circle, NW, Suite 700
Washington, DC 20036

James B. Ramsay
NARUC
1101 Vermont Avenue, NW
Suite 200
Washington, DC 20005

Leon Jacobs
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Loretta Lynch
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Margot Smiley Humphrey
Koteen & Naftalin
1150 Connecticut Avenue, NW
Washington, DC 20036

Joe D. Edge
Drinker Biddle & Reath
1500 K St, NW, Suite 1100
Washington DC 20005

Robert A. Mazer
Vinson & Elkins
1455 Pennsylvania Ave, NW
Washington, DC 20004

David Baker
Georgia Public Service Commission
47 Trinity Avenue
Atlanta, GA 30334

Martha S. Hogerty
Missouri Public Service Commission
Truman State Office Building, P.O. Box
360
Jefferson City, MO 65102

Mary Newmeyer
Alabama Public Service Commission
100 North Union Street, Suite 800
Montgomery, AL 36401

Deonne Bruning
Nebraska Public Service Commission
300 The Atrium, 1200 North Street, P.O.
Box 94927
Lincoln, NE 68509-4927

Lori Kenyon
Regulatory Commission of Alaska
1016 West Sixth Avenue, Suite 400
Anchorage, AK 99501-1963

Phillip F. McClelland
Pennsylvania Office of Consumer
Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Thor Nelson
Colorado Office of Consumer Counsel
1580 Logan Street, Suite 610
Denver, CO 801203

Barry Payne
Indiana Office of Consumer Counsel
100 N. Senate Ave, Rm. N501
Indianapolis, IN 46204

Joe D. Edge
Tina M. Pidgeon
Drinker Biddle & Reath
1500 K Street, NW, Rm 1100
Washington, DC 20005

Robert Mazer
Vinsor & Elkins
1455 Pennsylvania Avenue NW
Washington, DC 20004

Joel B. Shifman
Maine Public Utilities Commission
242 State Street, State House Station 18
Augusta, ME 04333-0018

Dennis Crawford
Montana Public Service Commission
1701 Prospect Ave., PO Box 202601
Helena, MT 59620-2601

Eve Kahao Gonzalez
Louisiana Public Service Commission
PO Box 91154
Baton Rouge, LA 70821-9154

Milton Higa
Hawaii Public Utilities Commission
465 South King Street, Kekuanao'a
Building, Number 103
Honolulu, HI 96813

Robert Bennink
North Carolina Utilities Commission
430 North Salisbury Street, Dobbs
Building
Raleigh, NC 27603

South Carolina Public Service
Commission
PO Drawer 11649
Columbia, SC 29211

Edward A. Garvey
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

Jason Hendrick
Illinois Commerce Commission
Leland Bldg., 527 E. Capitol Ave.
PO Box 19280
Springfield, IL 62706

Executive Director
Kentucky Public Service Commission
730 Schenkel Lane, P.O. Box 615
Frankfort, KY 40602

Tom Wilson
Washington Utilities and Transportation
Commission
Chandler Plaza Building, P.O. Box
47250
Olympia, WA 98504-7250

Phoebe Isales
Puerto Rico Public Service Commission
P.O. Box 190870, Hato Rey Station
San Juan, 00929-0870

Brian J. Cohee
Indiana Utility Regulatory Commission
302 West Washington Street, Suite
E306, Indiana Government Center South
Indianapolis, IN 46204

Allan Kneip
Iowa Utilities Board
350 Maple St.
Des Moines, IA 50319-006

Lowell C. Johnson
Nebraska Public Service Commission
300 The Atrium, 1200 North Street, P.O.
Box 94927
Lincoln, NE 68509-4927

George N. Barclay
General Services Adm.
1800 F Street, NW, Room 4002
Washington, DC 20405

John B. Adams
Citizens Utilities Company
1400 16th Street, NW, Suite 500
Washington, DC 20036

Karen Brinkmann
Richard R. Cameron
Latham & Watkins
1001 Pennsylvania Avenue, NW
Washington, DC 20004

Adam Golodner
Rural Utilities Service
1400 Independence Ave, SW
Washington, DC 20250

Robert Felgar
Dickstein Shapiro Morin & Oshinsky
2101 L Street, NW
Washington, DC 20037

Christopher R. Day
Angela J. Campbell
Institute for Public Representation
Georgetown University Law Center
600 New Jersey Avenue, NW, Suite 312
Washington, DC 20001

Robert M. Halperin
Bridget E. Calhoun
Crowell & Morning
1001 Pennsylvania Avenue, NW
Washington, DC 20004

Richard A. Muscat
The Gonzalez Law Firm
One Westlake Plaza
1705 South Capitol of Texas Highway
Austin, TX 78746

Margot Smiley Humphrey
Holland & Knight
2099 Pennsylvania Avenue, NW
Suite 100
Washington, DC 20006

HAND DELIVERED*

Vivian Lee